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Brazil

Coffee Semi-annual

2010

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Report Highlights:
This report updates BR10004. The Brazilian coffee production estimate for marketing year (MY) 2010/11 (July-June) has been revised downward to 54.5 million 60-kg bags, due to a drop in Robusta coffee production. Coffee exports for MY 2010/11 are estimated unchanged at 32 million bags. Carry-over stocks are forecast at 5.84 million bags, up 3 million bags from the previous season.

Commodities:
Coffee, Green

Production:

General

The Agricultural Trade Office Sao Paulo (ATO) estimate for the Brazilian coffee production marketing year (MY) 2010/11 (July-June) has been revised downward to 54.5 million 60-kg bags, green equivalent, down 800,000 bags relatively to the previous estimate, due to a drop in Robusta production.

Arabica production remains unchanged at 41.8 million bags, whereas Robusta production should contribute 12.7 million bags, down 6 percent from the previous estimate due to dry weather and high temperatures in Espirito Santo during the first quarter of 2010.

The harvest season has ended and the quality of the product has been affected by the multiple blossoming in 2009. However, the volume of washed Arabica coffee has increased significantly due to the strong price differential paid for the product. According to industry sources, over 50 percent of the 2010/11 Brazilian crop has already been marketed.

Area harvested and tree inventory estimates have remained unchanged. Coffee yield for MY 2010/11 is estimated at 25.06 bags/hectare, up 20 percent relative to MY 2009/10 (20.83 bags/ha.), mainly due to the on-year of the biennial Arabica cycle.

In September 2010, the Brazilian Government (GOB), through the National Supply Company (CONAB) of the Ministry of Agriculture, Livestock and Supply (MAPA), released the third official Brazilian coffee production forecast for MY 2010/11. As reported by CONAB, coffee production is estimated at 47.2 million bags, similar to the May 2010 survey (second crop survey), but up 7.73 million bags from the previous year (39.47 million bags).

The Brazilian Institute of Geography and Statistics (IBGE) has released its September 2009 coffee production forecast for MY 2010/11. IBGE projects production at 2.793 million metric tons of coffee, or 46.5 million 60-kg coffee bags, up 6 million bags relative to MY 2009/10 (40.5 million bags).

No official forecast has yet been announced for MY 2011/12 since coffee plantations are still blossoming. Industry sources report a noteworthy blossoming in October in major coffee areas. If good weather conditions prevail, fruit setting and development from the aforementioned blossoming could represent 60 to 70 percent of next year’s crop. A decrease in the coffee supply for MY 2011/12 is expected given that Arabica trees will be in the off-year of the biennial production cycle.

Production Costs

The table below shows the evolution of coffee production costs in Guaxupe – Minas Gerais, one of the main Brazilian coffee growing regions since 2008. Total costs in 2010 increased to US$ 156.39/bag, up US$ 33.05/bag compared to 2009 (US$ 123.34/bag), mainly due to the steady appreciation of the “real”.

Estimated Cost of Production - Arabica Coffee (Guaxupe - MG Growing Region, US$/60 kg-bag)			
ITEM	**18-Apr-08**	**9-Feb-09**	**1-Jun-10**
I - PLANTING COSTS			
1 - Airplane operations	0.00	0.00	0.00
2 - Mechanized operations	3.17	4.24	8.24
3 - Land analysis, sacks and others	4.44	1.47	1.92
4 - Temporary labor (including benefits)	41.40	41.40	81.01
5 - Fixed labor (including benefits)	27.30	25.63	3.81
7 - Seedling	0.00	0.00	0.00
8 - Fertilizer	27.75	19.90	19.78
9 - Pesticide	9.86	9.99	13.17
TOTAL PLANTING COSTS (A)	113.94	102.64	127.92
II - COSTS AFTER HARVEST			
1 - Transport (off-farm)	0.69	0.00	0.00
2 - Receiving, cleaning, drying, storage	0.00	1.89	2.47
3 - PROAGRO	0.00	2.56	3.34
4 - Technical assistance	0.00	0.00	0.00
TOTAL COSTS AFTER HARVEST (B)	0.69	4.45	5.81
III - FINANCIAL COSTS			
1 - Interest	2.34	3.82	4.52
TOTAL FINANCIAL COSTS (C)	2.34	3.82	4.52
VARIABLE COSTS (A+B+C = D)	116.97	110.92	138.25
IV - DEPRECIATION			
1 - Depreciation farm and improvements	1.56	0.37	0.27
2 - Implement depreciation	0.19	0.00	0.00
3 - Machinery depreciation	0.58	0.00	0.00
4 - Coffee plantation depreciation	17.82	6.83	10.61
TOTAL DEPRECIATION (E)	20.14	7.19	10.88
V - OTHER FIXED COSTS (F)			
1 - Regular machinery maintenance	0.28	0.02	0.02
2 - Insurance for fixed capital	0.22	0.04	0.03
3 - Benefits	0.00	0.00	0.60
TOTAL OTHER FIXED COSTS (F)	0.50	0.06	0.65
FIXED COSTS (E+F = G)	20.63	7.26	11.54
OPERATIONAL COSTS (D+G = H)	137.61	118.17	149.79
VI - FACTOR INCOME			
1 - Estimated income over fixed capital	3.52	0.34	0.26
2- Estimated income over coffee plantation	0.55	0.21	0.32
3 - Land	5.75	4.62	6.03
TOTAL FACTOR INCOME	9.82	5.17	6.60
TOTAL COSTS (H+I = J)	147.43	123.34	156.39
Source: CONAB/DIGEM/SUINF/GECUP			
ROE: Apr/08 = R$ 1.67/US$ 1; Feb/09 = R$ 2.38/US$ 1; Jun/10 = R$ 1.82/US$ 1.			
Yield = 25 bags/ha, except for Feb/09 = 30 bags/ha			

Coffee Prices in the Domestic Market

The table below shows the Coffee Index price series released by the University of Sao Paulo's Luiz de Queiroz College of Agriculture (ESALQ). The series tracks coffee prices in the domestic spot market beginning in September 1996. Coffee prices have increased significantly during the current season both in "reais" and in U.S. dollars (US$ 194.65/bag in October 2010 compared to US$ 150.34/bag in October 2009), due to tight supply of the product.

Arabica Coffee Prices in the Domestic Market (Real, 60kg/bag).					
Month	**2006**	**2007**	**2008**	**2009**	**2010**
January	291.50	281.63	267.84	268.41	280.75
February	269.75	267.66	285.19	269.34	278.68
March	254.44	252.72	263.28	262.48	279.70
April	248.82	238.88	256.35	260.10	282.18
May	234.86	232.20	254.84	268.02	289.46
June	224.58	240.80	255.76	256.64	305.98
July	218.16	238.63	250.51	247.50	302.36
August	232.82	254.54	248.86	255.34	313.93
September	233.47	259.15	261.58	254.29	328.23
October	235.12	255.84	256.84	262.20	331.18
November 1/	269.13	245.82	261.28	272.55	336.35
December	291.35	261.28	262.04	281.57	--
Source: CEPEA/ESALQ/USP. 1/ October 2010 refers to November 1.					

Consumption:

In MY 2010/11, total Brazilian domestic consumption estimate remains unchanged at 19.5 million coffee bags (18.47 million bags of roast/ground and 1.03 million bags of soluble coffee), a 4 percent increase compared to MY 2009/10, reflecting updated information from the coffee industry. The Brazilian Coffee Industry Association (ABIC) has not released its coffee consumption survey for the May 2009/April 2010 period.

Trade:

The estimate for Brazilian coffee exports in MY 2010/11 remains unchanged at 32 million bags. Green bean exports should account for 28.6 million bags, while soluble coffee exports should contribute 3.3 million bags. In spite of the appreciation of the Real and increased production costs, Brazil remains highly competitive in the international market.

According to the September 2010 Coffee Market Report International released by the International Coffee Organization (ICO), total world coffee consumption for 2009 is projected at approximately 129.1 million bags, slightly down compared to 2008 (130.6 million bags). Brazil represents 32 percent of total world exports.

Coffee exports for MY 2009/10 were adjusted upward to 29.78 million 60-kg bags, green beans, a 2 percent increase from previous the figure, based on updated information from the Brazilian Coffee Exporters Council (CECAFE). Green bean (arabica and robusta) exports are estimated at 26.58 million bags, whereas soluble coffee exports are estimated at 3.12 million bags.

The table below shows green coffee bean (NCM 0901.11.10), soluble coffee (NCM 2101.11.10) and roasted coffee exports (NCM 0901.21.00) by country of destination, according to SECEX, for MY 2009/10 and 2010/11 (July-September).

Brazilian Coffee Exports by Country of Destination (NCM 0901.11.10, MT, US$ 000 FOB)						
	MY 09/10 1/		MY 09/10 2/		MY 10/11 2/	
Country	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**
U.S.A.	308,225	756,308	414,819	1,071,967	106,594	315,659
Germany	353,654	886,535	453,897	1,185,014	100,243	298,478
Italy	141,731	368,976	184,868	494,206	43,137	125,230
Japan	103,380	290,267	135,616	392,535	32,236	102,269
Belgium	116,276	301,963	143,780	389,024	27,504	87,060
Slovenia	35,603	73,766	50,564	108,538	14,961	34,772
Spain	46,997	116,834	58,954	151,438	11,957	34,605
France	35,685	86,997	47,193	119,533	11,508	32,536
Sweden	38,399	95,235	48,381	123,236	9,981	28,000
Syria	23,311	46,211	31,411	64,732	8,100	18,521
Others	405,531	986,873	517,284	1,292,702	111,753	305,829
Total	1,608,792	4,009,966	2,086,767	5,392,926	477,975	1,382,959
Source : Brazilian Foreign Trade Secretariat (SECEX)						
Note : Numbers may not add rounding 1/ July - June - 2/ July - Sep						

Brazilian Roasted Coffee Exports by Country of Destination (NCM 0901.21.00, MT, US$ 000 FOB)						
	MY 09/10 1/		MY 09/10 2/		MY 10/1 2/	
Country	Quantity	Value	Quantity	Value	Quantity	Value
U.S.A.	2,174	12,460	2,586	14,425	412	1,965
Italy	875	3,770	1,135	4,798	260	1,027
Chile	80	463	146	840	66	376
Argentina	253	1,640	312	2,061	59	421
Bolivia	139	561	192	782	53	221
Japan	195	1,083	243	1,336	48	253
Paraguay	59	218	92	357	33	139
Uruguay	73	288	98	379	25	92
France	37	306	56	427	19	122
Cape Verde	8	46	21	116	13	69
Others	827	3,721	875	4,007	48	287
Total	4,720	24,558	5,757	29,529	1,037	4,971
Source : Brazilian Foreign Trade Secretariat SECEX)						
Note : Numbers may not add rounding 1/July - June - 2/July-Sep						

Brazilian Solube Coffee Exports by Country of Destination (NCM 2101.11.10 MT, US$ 000 FOB)			
	MY 09/10 1/	MY 19/10 2/	MY 10/11 2/

Country	Quantity	Value	Quantity	Value	Quantity	Value
U.S.A.	12,743	67,504	16,599	87,306	3,855	19,801
Russia	8,779	68,519	10,584	82,097	1,805	13,577
Ukraine	5,100	44,336	6,575	55,386	1,475	11,049
Argentina	5,190	26,637	6,417	32,694	1,226	6,057
Japan	3,779	28,360	4,739	35,001	959	6,642
Germany	2,852	15,518	3,714	21,863	862	6,344
Myanmar	1,469	8,299	2,225	12,235	756	3,936
Canada	2,460	20,357	3,068	25,212	609	4,854
Hungary	643	3,795	1,193	7,018	550	3,223
Chile	1,271	10,551	1,776	14,915	504	4,364
Others	27,293	205,442	33,936	256,253	6,643	50,811
Total	71,581	499,319	90,825	629,978	19,245	130,659
Source : Brazilian Foreign Trade Secretariat (SECEX)						
Note : Numbers may not add to rounding 1/July-June - 2/July-Sep						

Monthly coffee data (quantity and value) for MY 2009/10 and MY 2010/11 (July-September), as reported by CECAFE and the Brazilian Soluble Coffee Association (ABICS), follows. Preliminary data show that October 2010 shipments were 3 million bags.

Brazilian Monthly Coffee Exports for MY 2009/10 (Thousand 60-kg bag, green equivalent).						
Month	Conillon	Arabica	Roasted	Total Green	Soluble	Total
Jul-09	137.83	1,857.25	16.06	2,011.15	256.40	2,267.54
Aug-09	135.05	2,117.73	10.87	2,263.66	213.35	2,477.01
Sep-09	134.58	2,287.40	7.55	2,429.53	258.63	2,688.16
Oct-09	68.30	2,493.96	5.19	2,567.45	257.45	2,824.90
Nov-09	51.99	2,299.15	2.22	2,353.36	237.73	2,591.09
Dec-09	80.75	2,193.79	6.42	2,280.97	268.83	2,549.80
Jan-10	44.05	2,206.51	3.61	2,254.17	237.66	2,491.83
Feb-10	22.51	2,000.13	7.97	2,030.61	234.28	2,264.88
Mar-10	45.84	2,348.84	4.27	2,398.95	259.23	2,658.18
Apr-10	22.86	1,977.81	5.05	2,005.71	291.65	2,297.36
May-10	129.68	2,101.38	4.26	2,235.31	298.44	2,533.75
Jun-10	165.94	1,657.29	5.74	1,828.96	308.97	2,137.93
Cumulative	1,039.37	25,541.24	79.21	26,659.81	3,122.61	29,782.42
Source: CECAFE and ABICS.						

Brazilian Monthly Coffee Exports for MY 2009/10 (US$ 1,000,000).						
Month	Conillon	Arabica	Roasted	Total Green	Soluble	Total
Jul-09	12.43	254.64	4.00	271.07	40.63	311.70
Aug-09	12.39	302.41	3.22	318.02	35.69	353.71

Sep-09	13.11	333.71	2.44	349.27	41.44	390.71
Oct-09	6.37	368.68	1.39	376.45	44.47	420.92
Nov-09	4.97	345.40	0.56	350.93	39.30	390.22
Dec-09	7.66	338.73	1.62	348.01	44.67	392.68
Jan-10	4.50	341.52	1.06	347.08	38.47	385.55
Feb-10	2.42	312.48	2.33	317.23	38.27	355.50
Mar-10	4.96	368.16	1.22	374.33	42.73	417.06
Apr-10	2.41	310.89	1.30	314.60	46.13	360.72
May-10	11.76	337.33	1.04	350.13	45.82	395.95
Jun-10	15.06	258.83	1.68	275.57	46.55	322.12
Cumulative	98.05	3,872.77	21.87	3,992.69	504.15	4,496.84
Source: CECAFE and ABICS.						

Brazilian Monthly Coffee Exports for MY 2010/11 (Thousand 60-kg bag, green equivalent).						
Month	**Conillon**	**Arabica**	**Roasted**	**Total Green**	**Soluble**	**Total**
Jul-10	161.20	2,026.29	3.85	2,191.34	270.55	2,461.89
Aug-10	133.85	2,465.49	4.55	2,603.88	208.41	2,812.29
Sep-10	155.24	2,769.70	4.52	2,929.46	288.75	3,218.21
Cumulative	450.29	7,261.50	12.91	7,724.71	767.70	8,492.41
Source: CECAFE and ABICS.						

Brazilian Monthly Coffee Exports for MY 2010/11 (US$ 1,000,000).						
Month	**Conillon**	**Arabica**	**Roasted**	**Total Green**	**Soluble**	**Total**
Jul-10	16.05	335.76	0.91	352.72	42.04	394.76
Aug-10	14.02	431.36	1.27	446.64	34.12	480.77
Sep-10	16.17	518.14	1.08	535.39	45.42	580.80
Cumulative	46.24	1,285.25	3.26	1,334.75	121.58	1,456.33
Source: CECAFE and ABICS.						

Stocks:

Ending stocks for MY 2010/11 are estimated at approximately 5.84 million bags, up 3 million bags relatively to MY 2009/10 (2.84 million bags). The 2010 CONAB survey of privately-owned stocks has not been released. The survey includes coffee stocks held by growers, coffee cooperatives, exporters, roasters and the soluble industry as of March 31st.

As of June 30, 2010 public coffee stocks held by MAPA/DECAF (Funcafe stocks) were estimated at approximately 500,000 bags; whereas CONAB coffee stocks were 1.647 million bags in September 2010.

Policy:

According to the Brazilian government resolution #3,903, a total of R$ 2.088 billion should be released by Funcafe to finance coffee operations for 2010. As of October 15, a total of R$ 1.1 billion had already been released as follows: R$ 136 million for harvesting operations; R$ 606 million for storage; R$ 130 million for crop management; and R$ 229 million for the "Coffee Acquisitions Financing" (FAC) operations.

Author Defined:

Exchange Rate

Exchange Rate (R$/US$1.00 - official rate, last day of period)							
Month	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
January	2.94	2.62	2.22	2.12	1.76	2.32	1.87
February	2.91	2.60	2.14	2.12	1.68	2.38	1.81
March	2.91	2.67	2.17	2.05	1.75	2.25	1.78
April	2.94	2.53	2.09	2.03	1.69	2.18	1.73
May	3.13	2.40	2.30	1.93	1.63	1.97	1.82
June	3.11	2.35	2.16	1.93	1.64	1.95	1.80
July	3.03	2.39	2.18	1.88	1.57	1.87	1.76
August	2.93	2.36	2.14	1.96	1.63	1.88	1.76
September	2.86	2.22	2.17	1.84	1.92	1.78	1.69
October	2.99	2.25	2.14	1.74	2.12	1.74	1.70
November 1/	2.73	2.21	2.17	1.78	2.33	1.75	1.70
December	2.65	2.26	2.14	1.77	2.34	1.74	
Source : Gazeta Mercantil and BACEN (as of October 2006) 1/ November 2010 refers to November 1.							